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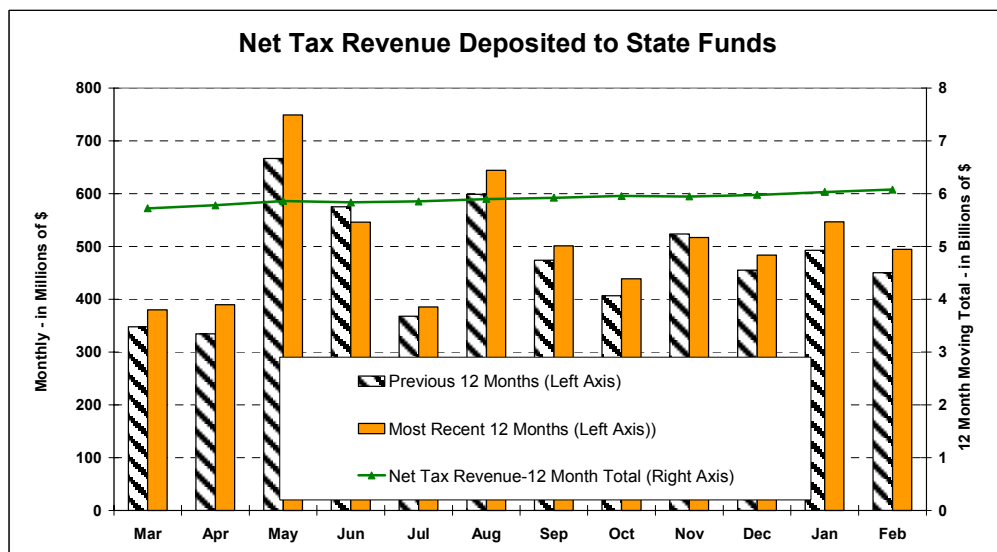
ADMINISTRATIVE SERVICES
 TIMOTHY C. FALLER

MEMORANDUM

TO: Members of the Iowa Senate and
 Members of the Iowa House of Representatives
 FROM: Jeff Robinson
 Shawn Snyder
 DATE: March 15, 2007

Twelve-month Total Net Tax Receipts Through February 28, 2007

The attached spreadsheet presents net State tax receipts for the 12-month period ending February 2007 with comparisons to the previous 12-months. February 2007 to February 2006 comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were collected, along with the refunds issued against those taxes. This document is the first in a monthly series of net state tax reports.



Month of February Comparison

February net tax receipts totaled \$494.6 million, an increase of \$44.5 million (9.8%) compared to February 2006. Major taxes contributing to the February change include:

- Sales/use tax (positive \$7.1 million) – A processing issue related to tax due dates contributed \$10.0 million to growth while an increase in the transfer out of local option sales tax negatively impacted sales/use tax revenue. Without these issues, net sales/use tax growth would have been near zero for the month.

- Individual income (positive \$44.8 million) – A processing issue related to tax due dates contributed \$12.0 million to growth, while reduced tax refunds boosted net collections \$20.0 million. The processing issue will reverse in March.
- Corporate income tax (positive \$0.1 million) – February is not a major deposit month for corporate tax.
- Fuel tax (negative \$7.9 million) – Gross revenue was down and refunds increased for the month.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending February 2007, net revenue from all taxes deposited to State funds totaled \$6.074 billion, an increase of \$383.9 million (6.7%) compared to the prior 12 months. Major contributors to the change and the year-over-year dollar and percentage change include:

- Individual income tax (positive \$261.1 million, 11.5%) – Growth has generally been strong with a big jump in early December. The latest twelve months are boosted by changes to the State's income tax withholding tables that started April 2005 and will end April 2007.
- Corporate tax (positive \$103.7 million, 50.1%) – Corporate tax has shown strong growth since 2003, with a significant up-tick over the last nine months.
- Sales/use tax (positive \$54.1 million, 2.6%) – The rate of sales/use tax growth has been falling steadily over the past six months. Sales/use tax deposited to the Road Use Tax Fund has fallen over the last twelve months.
- Motor fuel tax (negative \$48.7 million, - 10.1%) – Gross fuel tax deposits have decreased \$36.9 million and refunds have increased \$11.8 million.
- Gambling tax (positive \$33.9 million, 13.7%) – New casino boats have started operations and existing track casinos have introduced table games during the last 12 months.

Tax Spotlight – Real Estate Transfer Tax

The real estate transfer tax is imposed on the transfer of real estate. The tax was first effective July 1965. The tax payment is noted on the instrument (usually a deed) of transfer at the time the instrument is recorded. The current tax rate was effective beginning July 1991. The tax rate is \$0.80 per \$500 (or fractional part of \$500) of consideration paid for real property transferred.

The real estate transfer tax is payable when the instrument conveying the real property is presented for recording. The county recorder must file tax returns with the State Treasurer by the 10th day of each month for tax collected during the proceeding month.

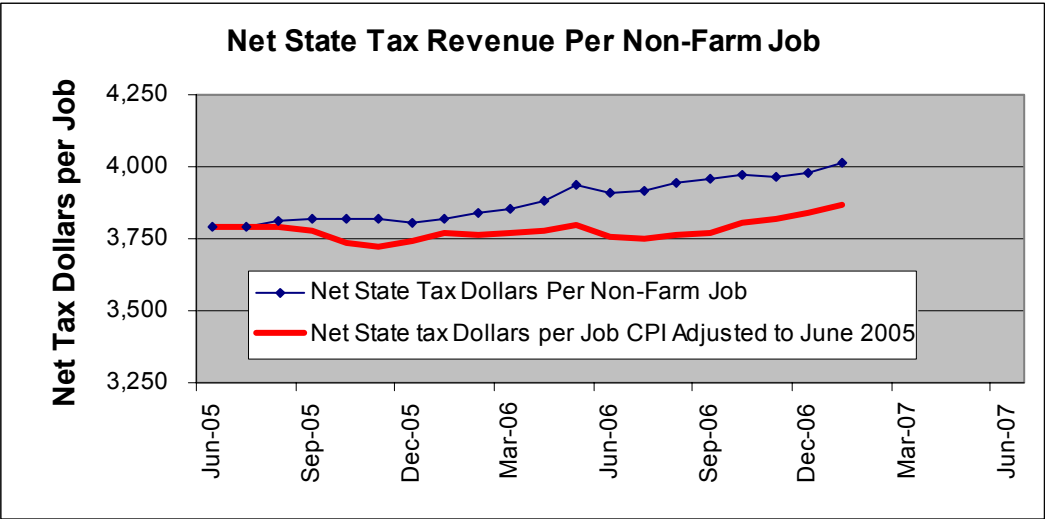
The county retains 17.25% of the real estate transfer tax collected. Of the remaining 82.75%, 95.00% is deposited in the State General Fund and 5.00% goes to the Shelter Assistance Fund.

The Shelter Assistance Fund is administered by the Department of Economic Development (see Section 15.349, Code of Iowa). Money in the fund may be used for rehabilitation, expansion, or operating cost of group home shelters for the homeless and domestic violence shelters. Of the moneys in the fund, not less than five hundred forty-six thousand dollars shall be spent annually on homeless shelter projects. On February 28, 2007, the cash balance of the Fund was \$107,000.

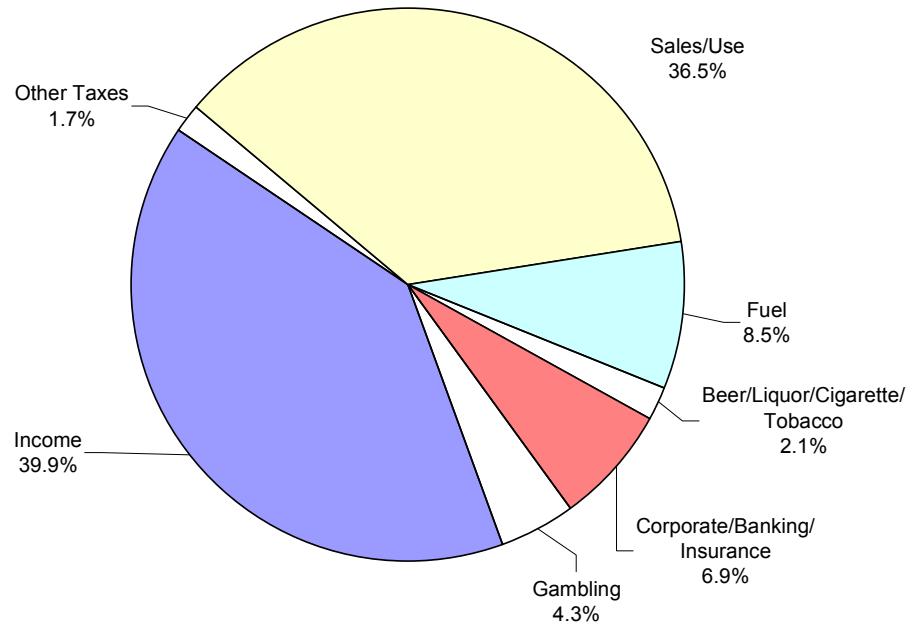
Tax Revenue and Employment

The average reading for Iowa non-farm employment over the 12 months ending January 2007 is 1,505,000, and net state tax receipts over the same 12 months totaled \$6.030 billion, or \$4,012 per non-farm job. This is \$222 (5.9%) higher than the per job average June 2005. Over that same time period, inflation (CPI-U) increased 4.1%. Therefore, tax revenue per job has exceeded the rate of

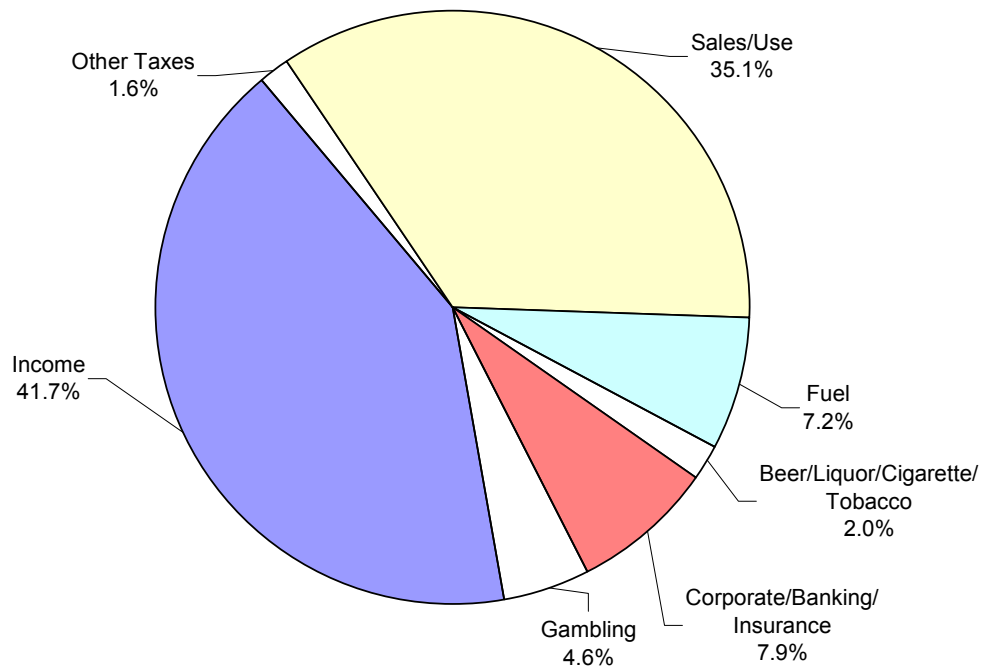
inflation since June 2005 by roughly 1.1% per year. The following chart provides an historical perspective of dollars per non-farm job and inflation adjusted dollars per job.



Net State Tax Revenue - Twelve Months Ending February 2006
Net Revenue = \$5.690 Billion



Net State Tax Revenue - Twelve Months Ending February 2007
Net Revenue = \$6.075 Billion



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in million- Columns may not add due to rounding

Net Tax by Tax Type	Total Previous 12 Month Period	Total Most Recent 12 Month Period	12 Month \$ Change	12 Month % Change	Month of February 2006	Month of February 2007	February \$ Change	February % Change
Banking	31.5	34.3	2.8	8.9%	0.4	0.3	-0.1	-20.9%
Beer & Liquor	19.6	20.2	0.6	3.1%	1.3	1.3	0.0	5.1%
Cigarette & Tobacco	98.1	98.5	0.4	0.4%	7.2	6.8	-0.4	-6.1%
Corporate Income	207.1	310.8	103.7	50.1%	7.0	7.1	0.1	1.4%
Fuel	484.8	436.1	-48.7	-10.0%	41.1	33.2	-7.9	-19.3%
Gambling	247.5	281.4	33.9	13.7%	19.2	22.2	3.0	15.6%
Individual Income	2,271.8	2,532.9	261.1	11.5%	112.2	157.0	44.8	39.9%
Inheritance	73.5	72.2	-1.3	-1.8%	5.5	3.6	-1.9	-33.7%
Insurance	154.5	132.7	-21.8	-14.1%	1.4	1.4	0.0	-2.5%
Other Taxes	5.2	4.2	-1.0	-19.2%	0.4	0.1	-0.3	-78.3%
Real Estate Transfer	18.4	18.4	0.0	0.0%	1.4	1.5	0.1	5.3%
Sales/Use	2,078.5	2,132.6	54.1	2.6%	253.0	260.1	7.1	2.8%
Total Net Taxes	5,690.5	6,074.4	383.9	6.7%	450.1	494.6	44.5	9.8%
Gross Tax & Refunds								
Gross Tax	6,400.6	6,730.0	329.4	5.1%	579.1	610.5	31.4	5.4%
Tax Refunds	-710.1	-655.6	54.5	-7.7%	-129.0	-116.0	13.0	-10.0%
Net Tax Receipts by Fund								
State General Fund	4,730.0	5,128.4	398.4	8.4%	368.5	415.9	47.4	12.9%
Road Use Tax Fund	738.2	683.7	-54.5	-7.4%	61.5	55.7	-5.8	-9.5%
Non-GF Gambling	188.5	222.5	34.0	18.0%	19.2	22.2	3.0	15.6%
Other State Funds	33.7	39.8	6.1	18.1%	0.9	0.6	-0.3	-26.8%
Local Option Taxes *	587.5	630.1	42.6	7.3%	48.8	52.3	3.5	7.1%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated prior to rounding.

Tax Categories Used in Table

Franchise (bank) tax: Taxes on banks (credit union tax is included here) are deposited to the State General Fund.

Beer & liquor tax: Taxes on beer, liquor, and wine are deposited to the General Fund, the Liquor Control Fund, and a small amount is deposited to a Department of Economic Development fund for wine promotion.

Cigarette & tobacco tax: Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

Corporate income tax: All corporate tax is deposited to the State General Fund.

Motor fuel tax: All motor fuel tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling tax: The first \$60.0 million of gambling tax revenue each fiscal year is deposited to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, The Gambler's Assistance Fund, the County Endowment Fund, the Endowment for Iowa's Health Account, and the Vision Iowa Fund.

Individual income tax: Most individual income tax revenue is deposited to the State General Fund. Other destinations include the Workforce Development Fund (\$4.0 million) and Child Daycare Fund (\$2.6 million). In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

Inheritance tax: All inheritance tax is deposited to the State General Fund.

Insurance premium tax: All insurance premium tax is deposited to the State General Fund.

Other taxes: Other taxes include Brucellosis eradication property tax (deposited to a Department of Agriculture and Land Stewardship's fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to a separate account to fund tax collection activities (tax gap).

Real estate transfer tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% to the State General Fund and 5.0% to the Shelter Assistance Fund.

Sales/use tax: General sales/use tax is deposited to the State General Fund, while most vehicle use tax is deposited to the Road Use Tax Fund. An annual amount of \$17.0 million of vehicle use tax is deposited to the Underground Storage Tank Program.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Local option taxes include local option sales tax for schools, local option sales tax for local government finance, local option income tax surcharge for schools, and hotel/motel tax.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be affected.